The Laptop/Notebook Market in Germany

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Summary

The laptop/notebook computer market is booming in both Germany and the Euro-Zone. Sales have developed exceptionally well in the eight biggest economies in Europe, growing in January 2005 by 15.9 % from January 2004. The market in Germany is very robust, despite the current slowdown in the overall economy. In the first quarter of 2005, the consumer laptop market grew by 21%, accounting for 43% of total volume (up from 38% in 2003) of all laptop sales. By comparison, sales of desktop PCs, measured in units, rose by only 7%. Thus, there is a clear trend of German consumers moving towards laptops and away from desktops, based in part to increasing emphasis on multimedia features and falling prices. As a result, the desktop market is expected to continue to shrink, although manufacturers are attempting to counteract this trend with bundling and attractive price points below EUR 600. In the B2B segment, industry insiders are predicting that the German laptop market will continue to grow into the second half of 2005 and are expecting an average growth rate of around 25-30%. The overall IT market in Germany is predicted to continue to grow to USD 96.2 billion by 2006.

Market Highlights

Competition continues to remain strong as the shift towards laptop/notebook computers is further fuelled by lower prices - this price trend will likely sustain the market over the short term. Currently, the average price for a laptop in the German market is approximately EUR 1,050, down 17% from one year ago. However, some analysts predict that prices will remain stable at around EUR 999 to EUR 1299 for the foreseeable future. Downward pressure on laptop prices in the market is the result of the following factors: Decreasing component prices, currency fluctuations of the Euro versus the Dollar, and the ever-increasing presence of Asian competitors in the German PC market and especially in the laptop/notebook segment. Taiwanese manufacturers have aggressively expanded their production capacity, and IT experts predict that more than 70% of laptops sold worldwide this year will come from their production lines (outsourcing by major U.S. companies such as Dell and HP account for a portion of this percentage). U.S. computer products, however, still enjoy a strong reputation for innovation and superior quality in the German market.

In addition to price erosion, the wider availability of key components, such as color filters for TFT panels, portable hard drives, and other hardware components are also fueling demand. Laptops equipped with DVD-ROMs and burners as well as Wireless LAN features are in high demand in the consumer segment. So too are wide-screen monitors, as laptops become a more popular medium for DVD movie playback. Furthermore, Germany’s expanding wireless infrastructure is contributing to growing consumer and business demand for laptops with Wireless LAN capabilities. With around 5,000 Hotspots in public access buildings, Germany is second in the world only to the United States. in remote wireless access. Supported by more than 50 service providers such as T-Mobile, Vodafone, or Swiss Com, the number of Hot Spots is supposed to rise to 110,000 within the next several years.

Market Analysis and Statistical Data

Table 1: U.S. Exports of Computers to Germany

4 QTR 2004	**1 QTR 2005**
USD 62,147,173	USD 63,133,139

Source: U.S. International Trade Commission

Table 2: Unit Sales in Germany

Laptop Units sold 2004	3.4 million
Projected laptop units sold 2005	4.4 million

Table 3: Laptops manufactured in Germany

	2003	**2004**
Volume (Units sold)	2,905,299	3,331,537
Value (EUR 1,000)	2,715,360	2,641,851

Table 4: German Imports of Laptops

	Value (EUR 1,000)	**Units**
2003	2,567,736	3,627,288
2004	2,924,429	4,539,941
2005 (Jan.- Feb.)	48,5203	732,128

Source: Federal Statistical Office Germany

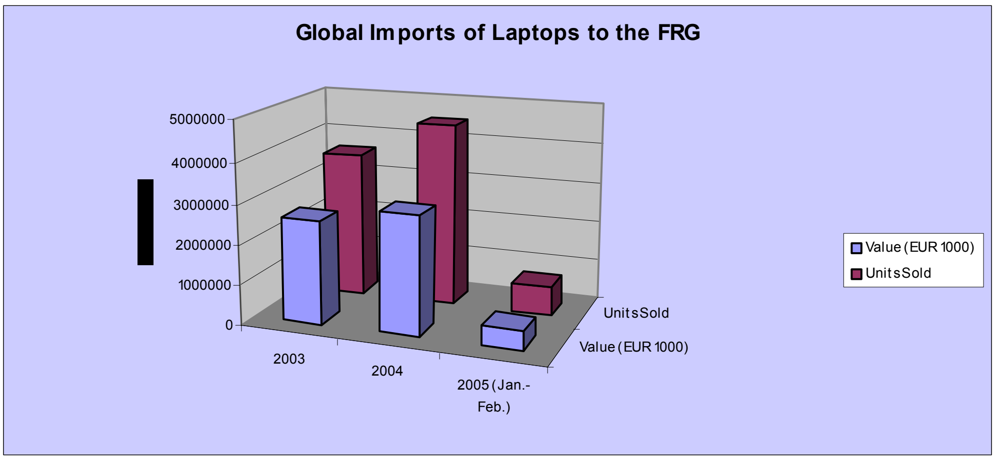

Table 5: German Imports of Laptops from the United States

	Value (EUR 1,000)	Units
2003	113,557	116,749
2004	89,024	122,049
2005 (Jan.- Feb.)	3,364	4,350

Source: Federal Statistical Office Germany

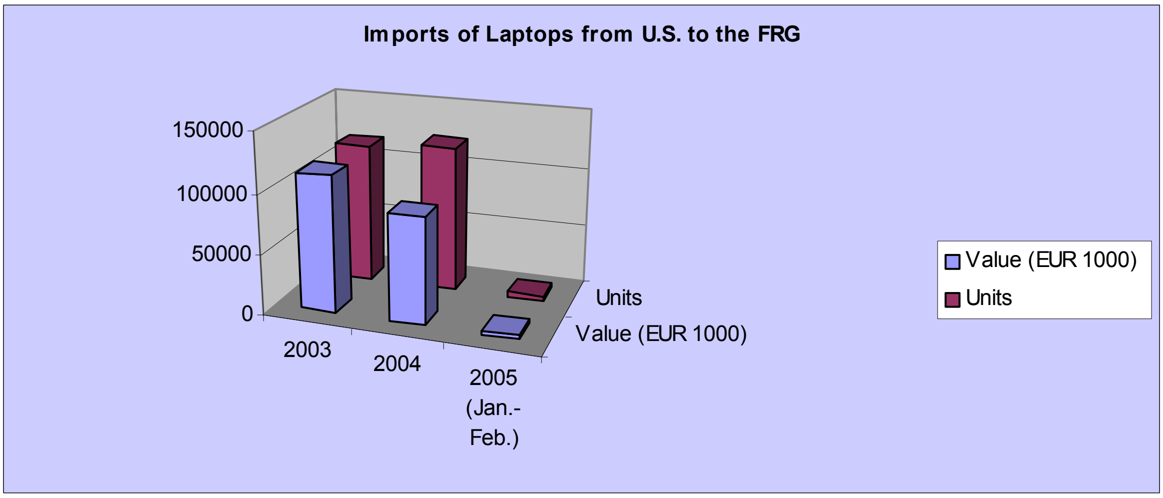

Table 6: Competitive Analysis

Brand	2002 Units	Market %	2003 Units	Market %	2004 Units	Market %
Acer	147,705	8.3	368,139	13.5	560,623	16.5
HP	161,761	9.1	240,542	8.6	250,751	7.3
Toshiba	209,263	11.8	254,779	10.0	278,630	9.7
Fujitsu Siemens	165,595	9.3	332,589	13.1	503,712	8.9
Gericom	213,500	12.0	234,280	9.2	n/a	Stopped notebook production 2/2005
Dell	157,989	8.9	166,391	6.5	198,072	8.4
IBM	141,219	8.0	164,804	6.5	-	6.5
Medion	45,000	2.6	154,920	6.1	279.101	7.9
Vobis	68,080	3.8	112,241	4.4	-	-
Sony	88,985	5.0	86,480	3.8	-	-
Other	372,627	21.0	421,640	16.6	1,524,273	-
Total	1,771,924	100.00	2,546,805	100.00	3,393,143	-

Source: Gertner, industry sources

The Taiwanese computer manufacturer Acer continues to hold onto its #1 spot in the German laptop market, having more than doubled its market share within the last three years from 8.3% in 2002 up to 16.5% in 2004. The Austrian-based Gericom, once one of the biggest contenders in the German market, stopped production of its line of laptops earlier this year due to major restructuring. Other smaller manufacturers, such as Tarox, Dreamcom, Averatec, Issam, are also active in the market, accounting for 16% of market share.

German laptop market shares in 1st quarter 2005

	Unit Sales 1st Quarter 2005	% of Market 1 Quarter 2005
Total market	975,252	100%
Fujitsu-Siemens	178,502	18%
Acer	157,188	16%
Medion	106,000	11%
Toshiba	73,004	7%
Hewlett-Packard	64,383	7%
Dell	59,000	6%
Other	337,175	35%

Source: Gartner

<u>Market Entry</u>

Thanks to Germany's membership in the Information Technology Agreement (ITA) there are no tariffs on imports of computer hardware into Germany. The ITA is a multilateral trade agreement that requires participants to eliminate tariffs on particular IT and telecommunications products, including computer hardware and peripherals. However, exporters should be aware that the German government levies a 16% VAT on most consumer goods.

Normal customs requirements for export documentation apply to exports of computer hardware to Germany, which are usually limited to a document in support of the customs value. In most cases, merely the shipping invoice is sufficient. For items valued under EUR 1,000, only an invoice and waybill are required. For goods valued at EUR 1,000 and above, the German importer is must obtain an import certificate (*Einfuhrnachweis*). The majority of software and computer-related products are exempt from custom duties.

For more information, go to:

http://web.ita.doc.gov/ITI/itiHome.nsf/6502bd9adeb499b285256cdb00685f77/54fb9d6e25e3962385256d2b004c39f5!OpenDocument

One non-tariff barrier exists in the form of the CE mark (*Conformite Europeene*), which certifies that a product meets EU health and safety standards. This effects a wide range of products, including machinery, electronics, medical devices, and telecommunications equipment. All companies – whether they are located in Europe, the United States, or elsewhere – have to meet CE mark requirements in order to sell their goods in the European market. Thus, CE mark product certification is crucial for U.S. companies exporting to Europe. Once a product receives the CE mark, a manufacturer can market it throughout the EU without further product modification.

For more information on the CE certification, visit:

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An import-turnover tax is applied but is passed on to the final consumer as a value-added tax (VAT). VAT in Germany is currently 16% and applies equally to European and German competitors.

For more information, go to:

http://web.ita.doc.gov/ITI/itiHome.nsf/6502bd9adeb499b285256cdb00685f77/54fb9d6e25e3962385256d2b004c39f5!OpenDocument

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http://www.ita.doc.gov/td/tic/ce_mark/ceindex1.htm

Distributors

There are more than 80,000 retailers in Europe that supply companies of various sizes operating in markets with different sector structures. Specialist IT retail has been expanding since 2000 due to investment in upgrades in the commercial segment. As a result, demand is growing for IT partnership and specialist retail programs. In recent months, many manufacturers and distributors of IT products have developed such programs aimed at strengthening loyalty between retailers and providers. On average, specialist IT retailers receive their products from around six different distributors, and Western Europe has a high level of concentration of distributors. However, a number of niche providers, who offer a comprehensive range of IT products, have established themselves in the last few years. Specialist retailers in Germany buy IT products from an average of eight different sources, putting them on top of the European league table.

Copyright Levy

Germany is one of several European countries that collect special copyright levies on the sale of electronic copying devices, such as blank audio and videocassettes. The government introduced the levies to compensate copyright holders for lost royalties from private copying of music, images and films. In December 2004, following a suit filed by VG Wort against Fujitsu Siemens seeking EUR 30 (USD 41) for each new computer sold in the country as compensation for digital copying, the District Court in Munich ruled that Fujitsu Siemens must pay a copyright levy on all new PCs it produces. However, the court agreed to only a EUR 12 levy. This is the first levy of its kind on the continent for PCs. VG Wort plans to apply the decision to all PC vendors in Germany. Manufacturers regard the levy as a de facto tax on PCs, which could negatively impact consumer segment computer sales.

Environmental Legislation

The European Union enacted the *Waste from Electrical and Electronic Equipment* (WEEE) and the *Restriction of the Use of Certain Hazardous Substances* (RoHS) directives on 13 February 2003. These pieces of legislation focus primarily on reducing environmental problems arising and the waste from the use of certain hazardous substances in electrical and electronic equipment (EEE). On 23 February 2005, Germany integrated both directives into its own laws with the *Act Governing the Sale, Return and Environmentally Sound Disposal of Electrical and Electronic Equipment*, known as the *ElektroG*. The IT sector is one of the industries effected under the new legislation, in addition to products such as small and large household appliances, lighting equipment, electrical and electronic tools, toys, sports and leisure equipment, medical products, monitoring and control instruments, and automatic dispensers.

The *ElektroG* establishes significant new responsibilities for companies wishing to sell their products in the German market. For most producers, registration with a clearinghouse is now a prerequisite to selling goods in Germany. Furthermore, firms are now responsible for collecting, recycling and disposing of the waste from their products after they have been sold to consumers. The EU directives will thus have a major impact on companies exporting IT goods into the German and the European market and it is important for effected U.S. firms to familiarize themselves with them.

Highlights of ElektroG Regulations

- The *ElektroG* legislation stipulates that EEE should be produced in such a way that allows easy disassembly, recycling, recovery, and reuse. Design and production methods should not prevent the reuse of EEE.

- From July 1, 2006 onwards, new EEE put on the market may not contain more than 0.1 percent of lead, mercury, hexavalent chromium, polybrominated biphenyls (PBB) and polybrominated diphenyl ethers (PBDE) and 0.01 percent cadmium. This will affect product design in many sectors, including IT.

- Producers must create a clearinghouse for administering registration, product take-back and financial guarantee responsibilities. In addition, producers selling must also register with the German federal government's clearinghouse, the *Elektro Altgeräte Register* (EAR). Registration with the EAR started in June 2005 and must be completed online by 23rd November 2005 www.stiftung-ear.de (German only).

- Each producer must provide an annual financial guarantee to the EAR for B2C products it puts on the market after 13 August 2005. This guarantee is used in case of a company's insolvency to cover the take-back and disposal of the firms' EEE from private households. B2B products do not require a financial guarantee, however.

- It is the producer's responsibility to take back, recycle, or dispose of the waste from its products, as well as to finance all of these procedures. Municipalities are responsible for the initial collection of WEEE from private households. Thereafter, the producer is responsible for retrieving the waste from municipal collection points. Firms may subcontract their take-back and treatment responsibilities with a recycling firm or build their own recycling facilities.

For more in-depth information, go to: www.buyusa.gov/germany/en/weee.html

Or contact:

BITKOM- Federal Association for Information Technologies, Telecommunications and New Media
Albrechtstrasse 10
10711 Berlin
Phone: [49] (0) 30-27576-0
www.bitkom.org

For the actual ElektroG legislation in English, go to:
http://www.bmu.de/files/pdfs/allgemein/application/pdf/elektrog_uk.pdf

Trade Promotion Opportunities
Trade fairs play a major role in the marketing of ICT products in Germany. The world's premier ICT show, "CeBIT," is held annually in Hannover, and maintains an office in the United States. Further information can be obtained from:

Deutsche Messe AG
Messegelaende
D-30521 Hannover
Germany
Tel: + 49 –511 89 0
Fax: + 49 –511 89 32 626
www.cebit.de

or

Hannover Fairs USA, Inc.
212 Carnegie Center
Princeton, NJ 08540
Tel: (609) 987 1202
Fax: (609) 987 8810
www.hfusa.com/cebit
www.cebit-events.com

Relevant Websites:
German E-Commerce Association (www.eco.de)
Association for Electrical, Electronic and Informational Technologies (www.vde.de)
European Committee for Standardization (www.cenorm.be)
National Institute of Standards and Technology (www.nist.gov)
European Committee for Electrotechnical Standardization (www.cenelec.org)

For More Information

The U.S. Commercial Service Germany can be contacted via e-mail at: frankfurt.office.box@mail.doc.gov, website: http://www.buyusa.gov/germany/en/.

You can locate your nearest U.S. Export Assistance Center, as well as Commercial Service offices overseas by visiting www.buyusa.gov.

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